

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA
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NEWTON MUNICIPAL WATERWORKS
NEWTON, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Leon Zmolek	Trustee	December 2010
Cathy Carter	Trustee	December 2011
Jim Gran(Chair)	Trustee	December 2007
L.D. Palmer, II	Manager	Indefinite

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

Board of Trustee
Newton Municipal Waterworks
Newton, Iowa 50208

We have audited the accompanying financial statements of the business-type activities, listed as exhibits in the table of contents of this report, of the Newton Municipal Waterworks, Newton, Iowa, as of June 30, 2007 and for the year then ended. These financial statements are the responsibility of Newton Municipal Waterworks management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

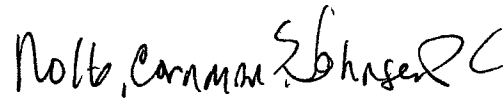
As described in Note 1, these financial statements reflect capital assets and depreciation thereon based upon appraisal costs, which, in our opinion is not in accordance with U.S. generally accepted accounting principles.

In our opinion, except for the possible effects of an adjustment, if any, to capital assets and depreciation, had we been able to examine adequate records regarding their historical cost, the aforementioned financial statements present fairly in all material respects, the financial position of the Newton Municipal Waterworks, Newton, Iowa at June 30, 2007 and the results of its operations for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 5, 2007 on our consideration of the Newton Municipal Waterworks' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the Newton Waterworks' financial statements taken as whole. The supplemental information included in Schedules 1 through 2, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The unaudited section tables have not been subject to the auditing procedures applied by us in the audit of the financial statements, and accordingly we express no opinion on them.


NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

October 5, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Newton Municipal Waterworks provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Waterworks financial statements, which follows.

2007 FINANCIAL HIGHLIGHTS

- ♦ Newton Municipal Waterworks revenue from operations increased \$451,086 from fiscal year 2006(FY 06), primarily due to the increase in rates charged to customers. Non-operating revenues increased \$44,397 from FY 06, primarily due to the donation of asset from the Iowa Speedway of \$30,780 and the capital recovery charge of \$18,720 for a total of \$49,500.
- ♦ Newton Municipal Waterworks program expenses increased \$7,844 from \$2,254,342 in FY 06 to \$ 2,262,186 in fiscal year 2007(FY 07).
- ♦ Newton Municipal Waterworks net assets increased \$334,079 from FY 06.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the governments financial activities.

The Financial Statements consists of a statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows. These provide information about the activities of Newton Municipal Waterworks as a whole and presents an overall view of the Waterworks finances.

The remaining statements provide financial information about activities for which Newton Municipal Waterworks acts solely.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE WATERWORKS AS A WHOLE

Net assets – Figure A-1 below provides a summary of the Waterworks’ net assets for the year ended June 30, 2007 compared to 2006.

Figure A-1
Condensed Statement of Net Assets

	Business-type Activities		Total Change
	2007	2006	2006-07
Current and other assets	\$ 1,099,566	\$ 602,230	82.58%
Capital assets	5,000,875	4,906,105	1.93%
Total assets	6,100,441	5,508,335	10.75%
Long-term liabilities	1,381,148	1,115,999	23.76%
Other liabilities	99,439	106,561	-6.68%
Total liabilities	1,480,587	1,222,560	21.11%
Net assets:			
Invested in capital assets, net of related debt	3,651,875	3,838,105	-4.85%
Unrestricted	967,979	447,670	116.23%
Total net assets	\$ 4,619,854	\$ 4,285,775	7.80%

Changes in net assets – Figure A-2 shows the changes in net assets for the year ended June 30, 2007 compared to 2006.

Figure A-2
Changes of Net Assets

	Business-type Activities		Total Change
	2007	2006	2006-07
Operating revenues:			
Charges for service and sales	\$ 2,425,732	1,969,535	23.16%
Miscellaneous	68,947	74,058	-6.90%
Total operating revenues	2,494,679	2,043,593	22.07%
Operating expenses:			
Home and Community Envrionment Program	2,193,698	2,068,653	6.04%
Total operating expenses	2,193,698	2,068,653	6.04%
Net operating income	300,981	(25,060)	-1301.04%
Non-operating revenue(expenses):			
Interest expense	(65,819)	(47,205)	39.43%
Net loss on disposal of assets	(2,669)	(138,484)	-98.07%
Miscellaneous revenue	101,586	54,614	86.01%
Total non-operating revenue(expense)	33,098	(131,075)	-125.25%
Change in net assets	334,079	(156,135)	-313.97%
Beginning net assets	4,285,775	4,441,910	-3.52%
Ending net assets	\$ 4,619,854	4,285,775	7.80%

In figure A-2, Newton Municipal Waterworks shows the changes in net assets for the year ended June 30, 2007 compared to 2006. These changes were due to additional revenues from the increase in rates to customers and additional expenditures due to the increased cost of doing business.

Business-Type Activities

Revenues of the Waterworks activities were \$2,596,265 and expenses of \$2,262,186. Revenues of these activities were comprised of charges for service, investment income, and miscellaneous income.

FINANCIAL ANALYSIS OF THE WATERWORKS FUNDS

As previously, noted Waterworks uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the Waterworks completed the year, it reported net assets of \$4,619,854; an increase over last year's ending balances of \$4,285,775. However, the primary reason for the increase in balance in fiscal 2007 is due to the increase in rates charged to customers and increased sales to Central Iowa Water Association.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Waterworks' Board of directors annually adopts a budget following required public notice and hearing. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget is prepared on the accrual basis.

Legal Budgetary Highlights

The Waterworks' total actual revenues were \$76,979 more than the total budgeted revenues, a variance of 3.18%.

Total expenditures were less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the Waterworks had invested \$5,000,875, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, equipment and transportation equipment. This amount represents a net increase of 1.93% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$298,822.

The largest change in capital asset activity during the year occurred in the buildings and system category. The buildings and systems totaled \$4,180,595 at June 30, 2007, compared to \$3,947,637 reported at June 30, 2006. This increase resulted from the net of capital additions and current depreciation during the year.

Figure A-3
Capital Assets, Net of Depreciation

	Business-type Activities		Total Change
	2007	2006	2006-07
Land	\$ 289,677	\$ 289,677	0.00%
Construction in Progress	1,268	158,343	-99.20%
Buildings and system	4,180,595	3,947,637	5.90%
Improvements other than buildings	7,164	7,370	-2.80%
Machinery and equipment	522,171	503,078	3.80%
Total	<u>\$ 5,000,875</u>	<u>\$ 4,906,105</u>	<u>1.93%</u>

Long-Term Debt

At June 30, 2007, the Waterworks had \$1,381,148 in long-term debt outstanding. This represents an increase of 23.76% from last year. More detailed information about the Waterworks' long-term liabilities is available in Note 3 to the financial statements.

In July 2002, the Waterworks authorized the issuance of \$275,000 in capital loan notes to pay for construction of a new maintenance garage. Planning for the project started in

fiscal 2002 and the notes were issued in fiscal 2003. Of these capital loan notes, \$150,000 were outstanding at year end.

In July 2006, the Waterworks authorized the issuance of a line of credit for the Southeast Corridor capital improvements project. The line of credit had a balance of \$355,000 outstanding at year end.

Waterworks also has total outstanding revenue bonds of \$844,000, as well as \$32,148 in advances for construction projects.

FACTORS BEARING ON THE WATERWORKS' FUTURE

At the time these financial statements were prepared and audited, the Waterworks was aware of existing circumstances that could affect its financial health in the future:

- ♦ The largest manufacturer in Newton has significantly reduced the volume of water consumption. The fiscal year 2006-07 budget has been adjusted downward in response to the volume expected, based on this years decreased usage.

CONTACTING THE WATERWORKS' FINANCIAL MANAGEMENT

This report is designated to provide the citizens, customers, investors and creditors with a general overview of the finances and to demonstrate the Waterworks' accountability for the money it receives. If you have questions about this report or need additional financial information, contact LD Palmer, Manager, Newton Municipal Waterworks, Newton, Iowa, 50208.

BASIC FINANCIAL STATEMENTS

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

Current assets:

Cash and cash equivalents	\$ 771,877
Restricted sinking fund	11,652
Receivables (net of allowance for uncollectibles)	241,593
Inventory	74,444
Total current assets	<u>1,099,566</u>

Non-current assets:

Capital assets, net of accumulated depreciation:

Property, plant and equipment	4,999,607
Construction in progress	1,268
Total non-current assets	<u>5,000,875</u>
Total assets	<u>6,100,441</u>

LIABILITIES

Current liabilities:

Accounts payable and other current liabilities	99,439
Total current liabilities	<u>99,439</u>

Noncurrent liabilities:

Due within one year	436,000
Due in more than one year	913,000
Restricted for:	
Customer advances for construction	32,148
Total noncurrent liabilities	<u>1,381,148</u>
Total liabilities	<u>1,480,587</u>

NET ASSETS

Invested in capital assets, net of related debt	3,651,875
Unreserved	967,979
Total net assets	<u>\$ 4,619,854</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

OPERATING REVENUES	
Charges for Service	\$ 2,425,732
Miscellaneous	68,947
Total operating revenues	<u>2,494,679</u>
OPERATING EXPENSES	
Home and Community Environment Program:	
Plant:	
Operations expenses	957,125
Maintenance expenses	129,058
Distribution:	
Operations expenses	307,113
Maintenance expenses	26,188
Administrative and general expenses	475,392
Depreciation	298,822
Total operating expenses	<u>2,193,698</u>
Operating income	<u>300,981</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest expense	(65,819)
Net loss on disposal of assets	(2,669)
Miscellaneous revenue	101,586
Total non-operating revenue (expenses)	<u>33,098</u>
Change in net assets	334,079
Total net assets - beginning	<u>4,285,775</u>
Total net assets - ending	<u>\$ 4,619,854</u>

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
 COMPARISON OF TOTAL REVENUES, EXPENSES AND CHANGES IN BALANCES
 ACTUAL TO BUDGET
 FOR THE YEAR ENDED JUNE 30, 2007

	ACTUAL	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Charges for service	\$ 2,425,732	\$ 2,352,500	\$ 73,232
Miscellaneous	68,947	65,200	3,747
TOTAL REVENUES	2,494,679	2,417,700	76,979
EXPENSES			
BUSINESS-TYPE			
Water department	1,894,876	1,918,009	23,133
CAPITAL ASSETS			
Depreciation	298,822	300,000	1,178
TOTAL EXPENSES	2,193,698	2,218,009	24,311
OTHER			
Non-operating income	101,586	9,200	92,386
Non-operating expense	(68,488)	(89,642)	21,154
TOTAL OTHER	33,098	(80,442)	113,540
NET	334,079	\$ 119,249	\$ 214,830
BALANCE BEGINNING OF YEAR	4,285,775		
BALANCE END OF YEAR	\$ 4,619,854		

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 2,375,051
Payments to suppliers	(974,601)
Payments to employees	(918,193)
Other receipts	68,947
Net cash provided by operating activities	<u>551,204</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of capital assets	(396,261)
Principal borrowed on capital debt	355,000
Principal paid on capital debt	(74,000)
Interest paid on capital debt	(65,819)
Other receipts	73,648
Net increase in restricted accounts	(1,680)
Net cash used by capital and related financing activities	<u>(109,112)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	27,938
Net cash provided by investing activities	<u>27,938</u>
Net increase in cash and cash equivalents	470,030
Balance - beginning of the year	<u>301,847</u>
Balance - end of year	<u><u>\$ 771,877</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 300,981
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	298,822
Increase in Accounts Receivable	(50,681)
Decrease in Inventory	25,055
Increase in Meter Deposits Payable	1,064
Increase in Accounts Payable	(8,274)
Increase in Sales Tax Payable	0
Increase in Accrued Compensated Absences Payable	88
Decrease in Construction Advances	(15,851)

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 551,204

SUPPLEMENTAL

The Waterworks' considers all highly liquid investments with maturity of three months or less to be "cash equivalents".

Interest	\$ 65,819
Taxes	\$ 0

SEE NOTES TO THE FINANCIAL STATEMENTS.

NEWTON MUNICIPAL WATERWORKS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1

Summary of Significant Accounting Policies

The Newton Waterworks is a municipal utility of the City of Newton located in Jasper County. It was first incorporated in 1903 and is operated under Chapter 383 of the code of Iowa and the Newton City Code. The Waterworks operates with a General Manager and Board of Trustee's. The Board is appointed to six year terms on a staggered basis by the mayor and approved by the City Council, however, they are not a component unit of the city. The Waterworks provides full water service to the Cities of Newton and Lambs Grove.

A. Reporting Entity

The financial statements include all the funds of the Newton Municipal Waterworks. Accordingly, the criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those agencies, offices, organizations, commissions, and public authorities over which the Waterwork officials exercise oversight responsibility are included in the financial statements. Manifestations of oversight responsibility over an entity include: 1) financial interdependency, 2) selection of governing authority, 3) designation of management, 4) ability to significantly influence operations, and 5) accountability for fiscal matters. The Newton Municipal Waterworks has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The accounts of the Waterworks are organized on the basis of funds, each of which is considered to be a separate accounting entity. The effects of interfund activity has been removed from these statements. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, equity, revenues and expenditures. The various funds are presented as follows in the financial statements.

Enterprise Funds
Waterworks

The Enterprise Fund is utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

Capital Assets

This fund is utilized to account for all capital assets. These capital assets are included at amounts appraised by an independent engineering firm as of June 30, 1983 plus subsequent additions at cost, less retirements through June 30, 2007.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The financial statements of the Newton Municipal Waterworks are prepared on an accrual basis which includes capital assets, trade receivables, and trade payables. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

D. Assets, Liabilities and Fund Equity

Cash, and Cash Equivalents - Cash balances are invested in savings which yield interest. Investments in certificates of deposits are stated at fair value.

Accounts Receivable - Accounts receivable from customers comprise the major portion of receivables.

Allowance for Doubtful Accounts - Represents a contra account to the recognition of the accounts receivables as revenues.

Inventory - Inventories are valued at cost using the first-in, first-out method. Waterworks maintains a perpetual inventory, however, physical counts are made on an annual basis and adjusted to actual.

Construction in Progress - Capitalizable costs incurred on projects which are not in use or ready for use are held in construction in progress. When the asset is ready for use, costs relating hereto are transferred to an asset. Upon determination that a project will be abandoned, the related costs are charged to expense.

Advances for Construction - Represent amounts which have been collected for construction of assets to serve the customers. The advances are refundable.

Restricted Assets - Certain proceeds of the Waterworks' enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bonds covenants. The "restricted sinking fund" account is used to segregate resources accumulated for debt service payments over the next twelve months.

Capital Assets - Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extends assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	15-20
System infrastructure	10-50
Vehicles	10
Office equipment	5-15
Computer equipment	5

Compensated absences - It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the financial statements.

Note 2

Stewardship, Compliance and Accountability

A. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Waterworks Board annually adopts a budget on an accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of expenditures, known as functions, not by fund or fund type. Applicable functions of the Waterworks is business-type activities.

NOTE 3

Detailed Notes

A. Deposits and Investments

The Newton Waterworks deposits at June 30, 2007 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the Waterworks of the Waterworks agent in the Waterworks name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Newton Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Newton Waterworks Board and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected

repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts and warrants or improvement certificates of a drainage district.

Newton Waterworks currently invests in a savings account and certificates of deposit that are considered cash in bank due to their short-term maturity values of three months or less as of June 30, 2007.

B. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assts, not being depreciated:				
Land	\$ 289,677	0	0	289,677
Construction in progress	158,343	1,268	158,343	1,268
Total capital assets, not being depreciated	448,020	1,268	158,343	290,945
Capital assets, being depreciated:				
Buildings and system	9,139,996	545,285	17,946	9,667,335
Improvements other than buildings	12,338	0	0	12,338
Machinery and equipment	2,090,935	8,051	3,069	2,095,917
Total capital assets being depreciated	11,243,269	553,336	21,015	11,775,590
Less accumulated depreciation for:				
Buildings and system	5,192,359	310,163	15,782	5,486,740
Improvements other than buildings	4,968	206	0	5,174
Machinery and equipment	1,587,857	(11,547)	2,564	1,573,746
Total accumulated depreciation	6,785,184	298,822	18,346	7,065,660
Total capital assets, being depreciated, net	4,458,085	254,514	2,669	4,709,930
Business-type activities capital assets, net	\$ 4,906,105	255,782	161,012	5,000,875

C. Long-term Debt

Revenue Bonds

The Waterworks issued bonds where the government pledges income derived from anticipated revenues. The original amount of revenue bonds issued in prior years was \$1,156,000. Revenue bonds outstanding at year end are as follows:

Year Ending June 30,	Bond Issue of February 2, 2001		
	Principal	Interest	Total
2008	\$ 51,000	32,410	83,410
2009	53,000	30,451	83,451
2010	55,000	28,416	83,416
2011	57,000	26,304	83,304
2012	60,000	24,115	84,115
2013	62,000	21,811	83,811
2014	64,000	19,430	83,430
2015	67,000	16,973	83,973
2016	69,000	14,400	83,400
2017	72,000	11,750	83,750
2018	75,000	8,986	83,986
2019	78,000	6,105	84,105
2020	81,000	3,110	84,110
Total	\$ 844,000	244,261	1,088,261

Capital Loan Notes

The Waterworks issued capital loan notes to construct a new maintenance garage. The principal and interest are payable from the revenue from operations of the Waterworks. The details of the Waterworks' capital loan note indebtedness are as follows:

Year Ending June 30,	Note Issue of July 2, 2002		
	Principal	Interest	Total
2008	\$ 30,000	7,950	37,950
2009	30,000	6,360	36,360
2010	30,000	4,770	34,770
2011	30,000	3,180	33,180
2012	30,000	1,590	31,590
Total	\$ 150,000	23,850	173,850

Southeast Corridor Loan

The Waterworks issued a line of credit at the bank to cover the costs of capital improvements to the Southeast Corridor Project. The principal and interest are payable from the revenue from operations of the Waterworks. The line of credit is currently at 7.0125% interest rate, with the availability of up to \$800,000. The maturity date of the line of credit is June 1, 2008.

Changes in Long-term Liabilities

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds Payable:					
Revenue Bonds	\$ 893,000	0	49,000	844,000	56,000
Capital Loan Notes	175,000	0	25,000	150,000	25,000
SE Corridor Loan	0	355,000	0	355,000	355,000
Advances for					
Construction	47,999	0	15,851	32,148	0
Total	<u>\$ 1,115,999</u>	<u>355,000</u>	<u>89,851</u>	<u>1,381,148</u>	<u>436,000</u>

NOTE 4

Other Information

A. Risk Management

The Newton Municipal Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Pension and Retirement Benefits

The Newton Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50307-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The Utility's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$39,093 \$38,845 and \$36,230, respectively, equal to the required contributions for each year.

OTHER FINANCIAL INFORMATION

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
 FOR THE YEARS ENDED JUNE 30, 2007
 ENTERPRISE FUND

	ACTUAL
	2007
OPERATIONS REVENUES:	
Charges for Service:	
Sale of Water	\$ 2,316,865
Service Charges	19,074
Jobbing Income	5,351
Sewer Billing Income	84,442
	<u>2,425,732</u>
Other:	
Miscellaneous	68,947
Total Revenues from Operations	<u>2,494,679</u>
OPERATIONS EXPENSES:	
PLANT:	
Operations:	
Salaries	298,635
FICA	22,886
IPERS	17,163
Health Insurance	60,933
Laboratory	5,319
Lime	166,489
Chlorine	50,262
Hydroflousilic Acid	9,910
Soda Ash	7,625
Carbon Dioxide	10,530
Polymer	4,370
Poly-Phosphate	5,401
Supplies and Expenses	8,835
Generator	15,204
Power:	
Primary	202,831
Secondary	55,447
Standby	5,196
Heating:	
Primary	8,770
Secondary	1,319
TOTAL OPERATIONS	<u>957,125</u>
Maintenance:	
Repairs and Maintenance:	
Pumping Equipment	2,461
Wells	48,183
Buildings	11,995
Treatment Equipment	1,472
Maintenance of Generator	9,671
Vehicles and Equipment	4,381
Lagoon Maintenance	35,000
Maintenance of Grounds	5,419
Water Tower Maintenance	10,476
TOTAL MAINTENANCE	<u>129,058</u>
TOTAL PLANT	<u>1,086,183</u>

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
 FOR THE YEARS ENDED JUNE 30, 2007
 ENTERPRISE FUND

	ACTUAL
	<u>2007</u>
DISTRIBUTION:	
Operations:	
Salaries	194,447
On Call	5,330
FICA	16,188
IPERS	11,984
Health Insurance	49,305
Vehicle and Equipment	13,469
Maps and Records	798
Field Supplies and Expense	14,217
Operator Certification	1,375
TOTAL OPERATIONS	<u>307,113</u>
Maintenance:	
Mains	12,171
Meters	5,002
Valves and Equipment	2,700
Vehicles and Equipment	6,315
TOTAL MAINTENANCE	<u>26,188</u>
TOTAL DISTRIBUTION	<u>333,301</u>
ADMINISTRATION:	
Customer Accounting and Collecting:	
Salaries	94,963
FICA	7,213
IPERS	5,479
Health Insurance	35,438
Postage	26,022
Payments to Gas Company	66,270
Office Supplies	6,760
Equipment Maintenance	10,903
Building Maintenance	11,548
TOTAL ADMINISTRATION	<u>264,596</u>
General Administrative Costs:	
Management	76,910
Trustees	3,000
FICA	6,051
IPERS	4,631
Health Insurance	7,725
Risk Insurance	45,859
On Call	1,242
Payroll Services	2,268
Publications	1,224
Dues and Subscriptions	3,287
Miscellaneous	18,019
DNR Fee	1,889
Rent and Leases	375
Safety	2,372
Phone Communications	13,151
Travel and Conference	293
Audit Expense	6,550

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF WATERWORKS REVENUES AND EXPENSES
 FOR THE YEARS ENDED JUNE 30, 2007
 ENTERPRISE FUND

	<u>ACTUAL</u> <u>2007</u>
ADMINISTRATION (CONTINUED):	
General Administrative	
Costs (Continued):	
Uniforms and Shoes	3,569
Offices Supplies	2,391
Car Allowance	6,000
Consumer Confidence Reports	1,379
Merchandise and Resale Labor	1,711
Public Relations	900
TOTAL GENERAL ADMINISTRATION	<u>210,796</u>
TOTAL ADMINISTRATION	<u>475,392</u>
DEPRECIATION	<u>298,822</u>
TOTAL OPERATIONS EXPENSES	<u>2,193,698</u>
EXCESS OF OPERATING REVENUE OVER OPERATING EXPENSES	300,981
Other Revenues:	
Interest on Investments	27,254
SRF Interest	684
Non-Operating Income	73,648
TOTAL OTHER REVENUES	<u>101,586</u>
Other Expenses:	
Loss on Disposal of Assets	2,669
Interest Expense	65,819
TOTAL OTHER EXPENSES	<u>68,488</u>
EXCESS OF REVENUES OVER EXPENSES	334,079
NET ASSETS BEGINNING OF YEAR	<u>4,285,775</u>
NET ASSETS END OF YEAR	<u><u>\$ 4,619,854</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON MUNICIPAL WATERWORKS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2007

<u>GRANTOR/PROGRAM</u>	<u>CFDA NUMBER</u>	<u>GRANT NUMBER</u>	<u>LOAN BALANCE</u>
DEPARTMENT OF NATURAL RESOURCES:		.	
IOWA DEPARTMENT OF NATURAL RESOURCES:			
DRINKING WATER STATE REVOLVING			
FUND PROGRAM	66.468	FS-50-99-DWSRF-015	\$ 844,000
TOTAL			\$ 844,000

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Newton Municipal Waterworks and is presented in conformity with the accrual basis of accounting. The information on the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Newton Municipal Waterworks

We have audited the financial statements of Newton Municipal Waterworks as of and for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. A qualified opinion was issued on the balance sheet due to the capital assets originally being reported at appraised value. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton Municipal Waterworks' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Newton Municipal Waterworks' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Newton Municipal Waterworks' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Newton Municipal Waterworks' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Newton Municipal Waterworks' financial statements that is more than inconsequential will not be prevented or detected by Newton Municipal Waterworks' internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Newton Municipal Waterworks' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

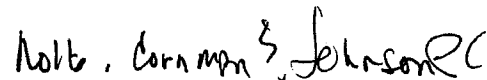
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton Municipal Waterworks' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not in all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and users of Newton Municipal Waterworks, and other parties to whom Newton Municipal Waterworks may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Newton Municipal Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

October 5, 2007

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants
(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
Newton Municipal Waterworks

Compliance

We have audited the compliance of Newton Municipal Waterworks with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Newton Municipal Waterworks' major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Newton Municipal Waterworks' management. Our responsibility is to express an opinion on Newton Municipal Waterworks compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newton Municipal Waterworks' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Newton Municipal Waterworks' compliance with those requirements.

In our opinion, Newton Municipal Waterworks complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Newton Municipal Waterworks is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Newton Municipal Waterworks' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Newton Municipal Waterworks' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Newton Municipal Waterworks' internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in the Newton Municipal Waterworks' internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Newton Municipal Waterworks' ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Newton Municipal Waterworks' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Newton Municipal Waterworks' internal control. We consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Newton Municipal Waterworks and other parties to whom Newton Municipal Waterworks may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.
Certified Public Accountants

October 5, 2007

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) A qualified opinion was issued on the financial statements, due to the capital assets reported at appraised value.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Individual Programs:
 - CFDA Number 66.468 - Drinking Water State Revolving Fund Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Newton Municipal Waterworks did not qualify as a low-risk auditee.

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCY:

No matters were reported.

NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCY:

No matters were reported.

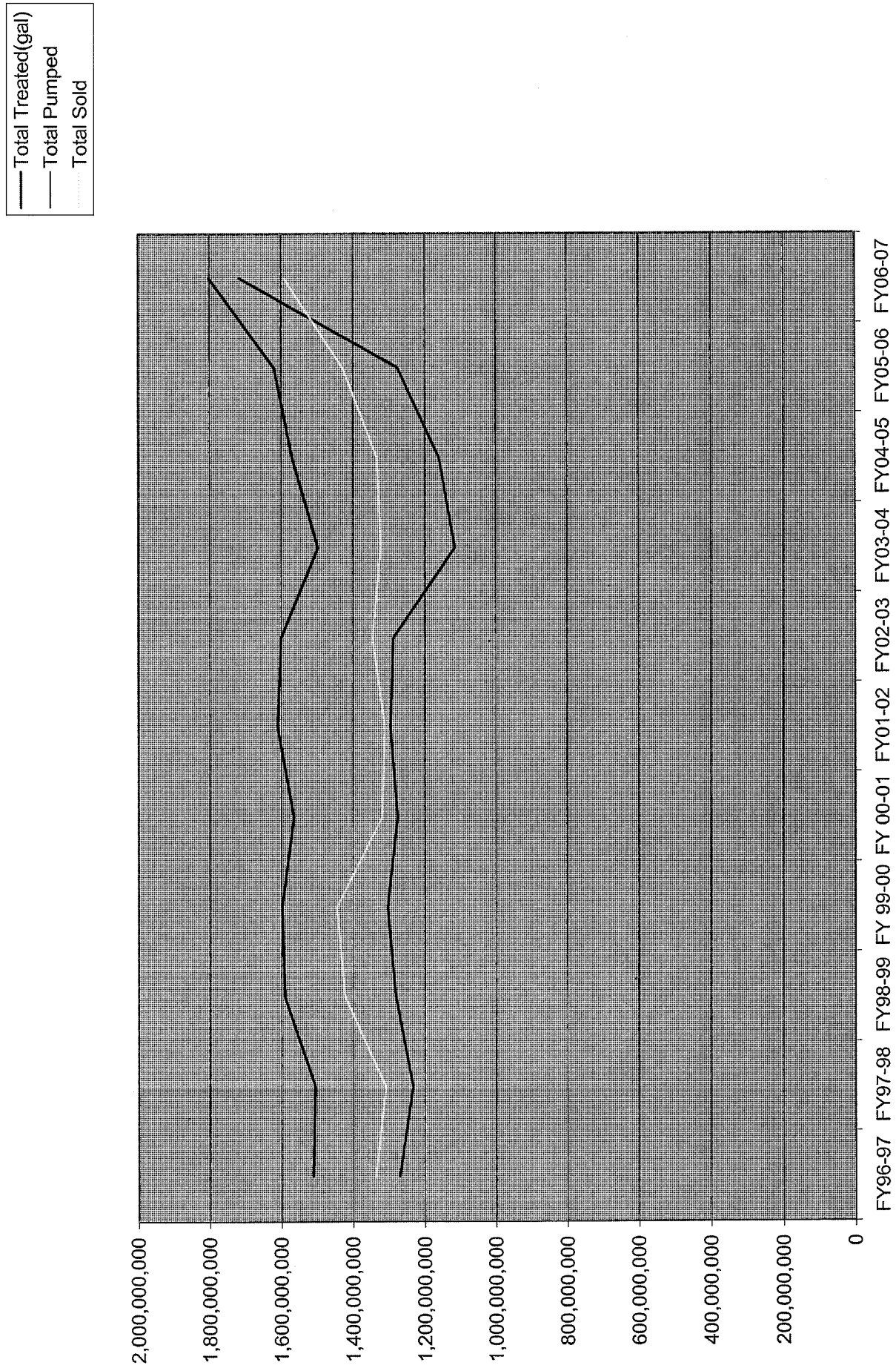
NEWTON MUNICIPAL WATERWORKS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Statutory Reporting

- IV-A-07 Certified Budget - Waterworks' disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- IV-B-07 Questionable Disbursements - We noted no disbursements for parties, banquets, or any other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined an Attorney General's opinion dated April 25, 1979.
- IV-C-07 Travel Expense - No expenditures of Waterworks' money for travel expenses of spouses of Waterworks' officials or employees were noted.
- IV-D-07 Business Transactions - No business transactions between the Waterworks and the officials and employees of the Waterworks during the year ended June 30, 2007.
- IV-E-07 Bond Coverage - Surety bond coverage of Waterworks' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-07 Board of Trustee Minutes - We noted no transactions that should have been approved in the trustee minutes.
- IV-G-07 Revenue Bonds - We noted no instance of noncompliance with revenue bond requirements.
- IV-H-07 Deposits and Investments - The Waterworks has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

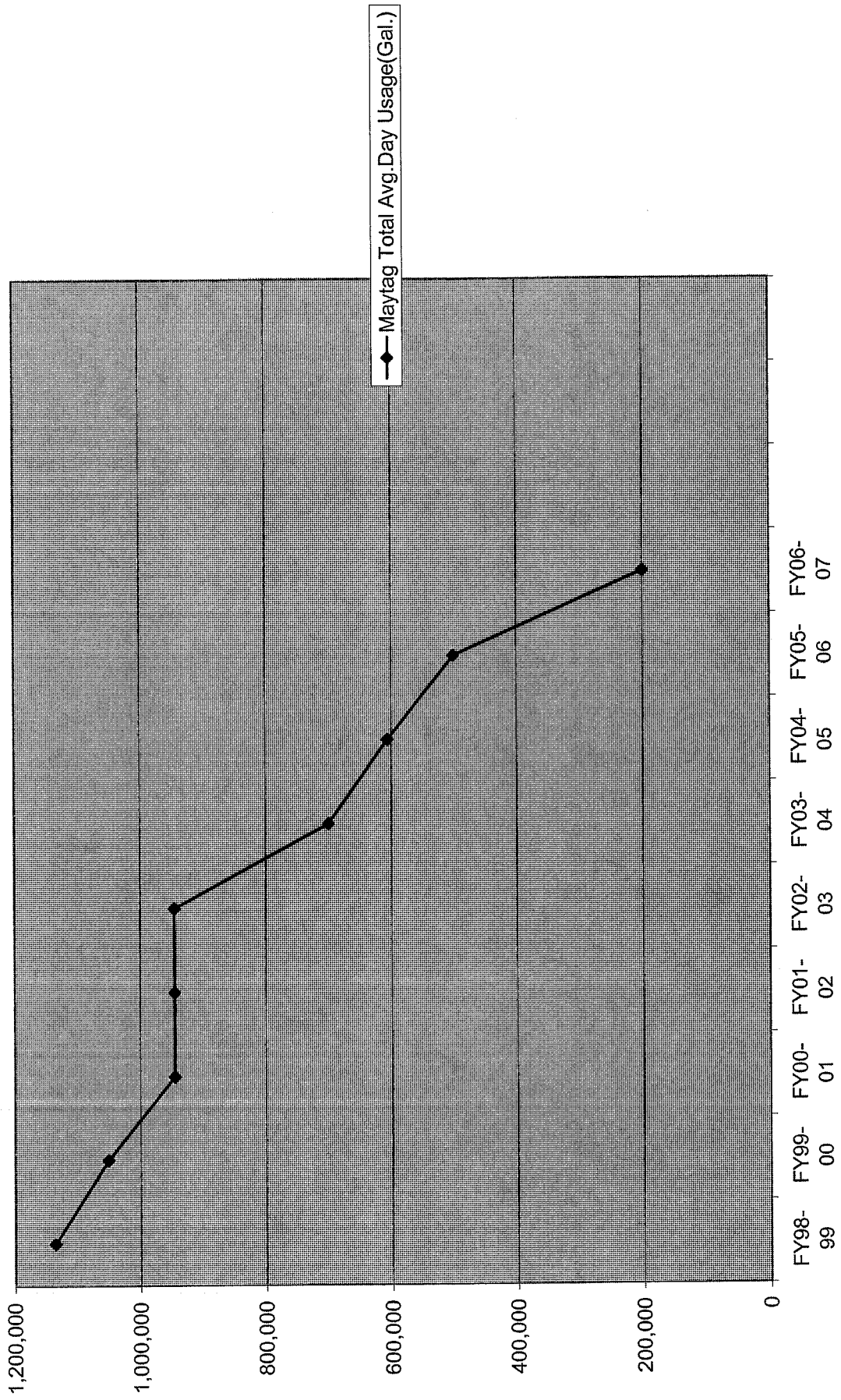
UNAUDITED INFORMATION

Comparison Chart of Water Treated, Pumped, and Sold
for the Newton WaterWorks Through June 2007

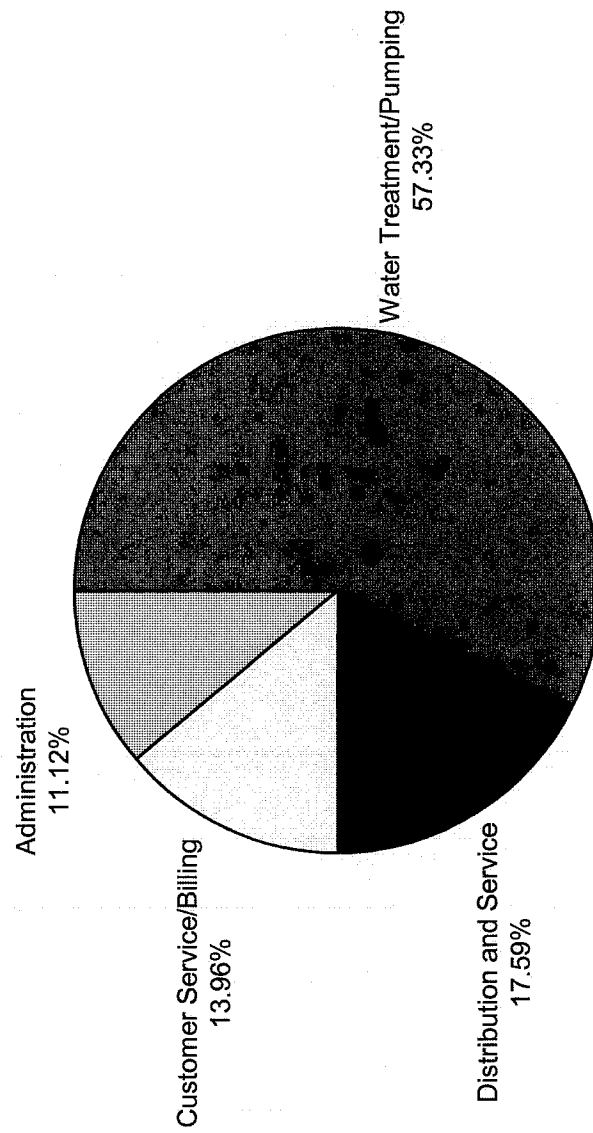


Maytag Average Daily Usage-
All Newton Facilities

Maytag Total Avg.Day Usage(Gal.)



How Customers Money is Spent
\$2,193,698
FY06-07
*Does not include \$ 298,822 Depreciation



Treated Water&Sales and Usage- FY06-07

